



# RESTRUCTURING DIPLOMATIC RELATIONS IN SHAPING INVESTMENT RULES

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## ABSTRACT

The importance of international relations in attracting foreign investment is examined in this study (FDI). The significance of FDI has been well documented in the literature and is widely acknowledged by most governments throughout the world. No government can now reject the need for FDI or the economic benefits this could bring. Foreign direct investment (FDI) is thought to be a key driver of economic growth and progress. Because it assists in the accumulation of capital and the expansion of industrial capacity of the host countries. Diplomacy, like so many other aspects of government, is impacted by the fundamental developments of the twenty-first century. Shocks to the global system, the change in internet-based information dissemination, and liberal regimes' legitimacy issues all appear to need a fundamental re-orientation of foreign affairs instruments. The author through this paper has tried to examine the changes that could be brought in the diplomacy between countries so that a greater cross-border investment could take place and this has been explored by understanding how diplomacy has changed in the 21<sup>st</sup> century, what types and tactics are being used today by countries to safeguard themselves on one hand while increase investment on the other and the method of research used in this paper is qualitative in nature and basically a review of all the research done while later suggesting the ways to mould the diplomacy today.

## INTRODUCTION:

International economic integration is not really an endless loop, as the last century has proved. Just because most states agree to do so only did trade barriers fall in the last century. Despite the fact that trade is now controlled at the transnational level, as evidenced by the World Trade Organization's increasing importance, worldwide flow of capital, particularly foreign direct investment (FDI), do not advantage from worldwide governance practices that would impose common standards all across entire planet. "In the lack of restrictions on host state sovereignty, transnational enterprises' (MNE) operations are influenced by national administration as well as unique diplomatic intergovernmental relationships with their home and host nations, as Martin Wolf suggests.<sup>1</sup>"

The account for the majority in foreign direct investment (FDI) and the liberalisation of capital movements among nations are linked to the globalisation process.<sup>2</sup> "Foreign direct investment is critical to globalisation since it is associated to development in both developed and developing markets."<sup>3</sup> Since 1990, FDI flows have varied dramatically, with large rises and decreases. "International production had two decades of strong expansion succeeded by one of stagnant growth," thus according UNCTAD (2020), that has been tracking transnational enterprises' activity and FDI over the last 30 years. In the 2010s, cross-border investment in real production assets ceased to rise (...) "<sup>4</sup> Most lately, worldwide FDI flows have rebounded in 2019, following significant reductions in 2017 and 2018. Furthermore, in 2019, FDI flows to advanced economies increased by 5%, while flows to emerging economies decreased by 2%. Nonetheless, FDI inflows to Portugal have been on the rise, rising from USD 4 897 million in 2014 to USD 8 234 million in 2019<sup>5</sup>. However, because to the COVID-19 pandemic, FDI dropped sharply in 2020, with a drop of up to 40% predicted, according to the same analysis.

Ever since conclusion of the Cold War, economic diplomacy has become more important as a supporter of FDI<sup>6</sup>. Economic diplomacy would play a major role in the twenty-first century as a result of its unquestionable prevalence today, considering that globalisation and trade liberalisation are rendering economic concerns increasingly important to nations. Economic diplomacy covers a wide range of topics, including industrial diplomacy, financial diplomacy, and trade diplomacy. The very first, commercial diplomacy, is the main focus, as it pertains to the assistance and encouragement of economic growth and foreign direct investment.<sup>7</sup> Still, accordingly, Portugal's policy is concentrated on business diplomacy, as is the case for practically other countries. Economic diplomacy also involves a large number of players, including government ministries, diplomats, foreign embassies, and investment promotion agencies (IPA). IPAs play an important role currently since they "may assist in the remedying of market failures by providing a variety of services focused at promoting their nation, its competitive industry climate, industries, and businesses, as well as just simplifying business establishment and administration."<sup>8</sup>

## HYPOTHESIS QUESTIONS:

H0- The tactics and meaning of diplomacy has changed since the advent of 21<sup>st</sup> century.

H1- The tactics and meaning of diplomacy have not changed since the advent of 21<sup>st</sup> century.

H0- Diplomacy needs to be given a new approach to strengthen the investment rules and increase investment.

H1- Diplomacy need not be given a new approach to strengthen the investment rules and increase investment.

## RESEARCH METHODOLOGY:

Numerous researches on the determinants of FDI and the factors that create changes in FDI throughout areas and time can be found in the literature on FDI. The majority of these research employed panel data from various nations to evaluate the FDI equation using quantitative techniques. The current analysis relies on a variety of data sources that enhance each other. Secondary data is gathered through research articles, journals, reports from government and international organisations, and other publications in order to investigate the impact of international relations on FDI in particular. Furthermore, secondary data will assist in framing the FDI position in terms of international interactions with FDI exporting countries. The author did not have the resources to interview the diplomats that's why the paper has been mostly relied on the quantitative data in the secondary resources.

## Economic Diplomacy and Foreign Direct Investment:

Currently, economic diplomacy is focused on "enabling access to global markets for national enterprises", encouraging foreign direct investment (FDI) to a territorial boundary, and shaping international regulations to promote the nation's interests."<sup>9</sup> These can be carried out on two thresholds: macroeconomic diplomacy, which takes place between two or even more discussing States, and micro-economic diplomacy, which takes place between two or more negotiating enterprises in a supported by a State in a competitive environment<sup>11</sup>. Within this respect, it is seen as a form of diplomacy wherein a variety of economic and political methods are employed to achieve specific national economic goals, particularly overseas. Economic diplomacy also controls the tensions that exist across politics and economics, among state and non-state players, and between international and domestic forces, as well as the international and domestic negotiating processes<sup>12</sup>.

FDI inflows provide further foreign capital, and also new developed technology—as mentioned —, export promotion and leadership abilities<sup>13</sup>, and lateral and vertical knowledge spill overs via either forward or backward linkage with local businesses<sup>14</sup>. As a result, FDI has a beneficial impact on international export promotion and is a significant funding source both for host and home countries<sup>15</sup>.

In the 1980s, the very first empirical studies on the influence of economic diplomacy on trade and Investment were done<sup>16</sup>. Studies on this topic spanning 1980 to 2000 found a "solid relationship between trade (investment) and collaboration among individual nations."<sup>17</sup> In terms of the relationship involving economic diplomacy and foreign direct investment<sup>18</sup>, there is indeed a link connecting international network and FDI inflow efficiency. Furthermore, a positive relationship was discovered that showed heterogeneous influence of financial diplomacy on FDI among host and home economies, based on their cultural affinity.

States have tried establishing investment promotion agencies (IPAs) to encourage FDI inflows and, at the same time, to assist local companies in expanding

internationally and mitigating FDI risks.<sup>19</sup> In this respect, authorities respond to shareholder inquiries through IPAs, which spread information on the web through marketing, trade exhibitions, conferences, and displays, creating a flow of data to new investors.<sup>20</sup> Moreover, IPAs are believed to be so vital to the growth that they are thought to be such an integral element of most nations' development initiatives that if a nation doesn't even have an IPA, it is probable that that state can have fewer opportunities of being prosperous.<sup>21</sup>

It is also contended that IPAs can help to attract Foreign direct investment in general.<sup>22</sup> The goal of IPAs, especially, is to promote FDI inflows in order to improve output and create new jobs. When a result, as FDI inflows increase, the countries are expected to draw more elevated foreign direct investment, boosting their global and subnational competitiveness.<sup>23</sup> Undoubtedly, the relevance of investment promotion agencies stems from the fact that they are frequently the initial point of contact for potential foreign investors, as WAIPA and the World Economic Forum have stated.<sup>24</sup>

Numerous studies have been performed to connect the notions of economic diplomacy and investment promotion agencies to the acquisition of foreign direct investment, as stated previously. In the last trimester of 2020 and the first semester of 2021, researchers searched the Web of Science and SCOPUS databases using the terms "investment promotion agency," "IPA," "foreign direct investment," "diplomacy," "economic diplomacy," and "inflows."

### The Notion of Shuttle Diplomacy:

Diplomacy, in the context of international affairs, is the practice of promoting one's own objectives in regard to other nations. In a similar vein, Wright claims that diplomacy in the conventional meaning refers to the use of information, cunning, and skill in any conversation or transition. He went on to argue that it is the use of facts and information in international politics through negotiation, advocacy, and agreement, among other things. As according Cambridge Dictionary, shuttle diplomacy relates to conversations across two or more countries, communicating to the authorities concerned, relaying messages, and providing solutions to difficulties. A diplomatic dialogue undertaken by an authorized middleman who flies often between the countries involved is known as shuttle diplomacy. Shuttle diplomacy, in a similar manner, is characterized as an outside entity acting as an intermediate between (or among) disputing parties without immediate principal-to-principal communication.

Shuttle diplomacy is an international policy deal aimed at achieving national goals. It was emphasised the importance of foreign travels diplomacy in allowing for incorporation into the community of nations and participation in multilateral organisations, which would be the justification for the government's numerous visits, allowing for foreign investment inflow.<sup>25</sup> It is also reinforced by the fact that shuttle diplomacy has been used as a tool to portray nations in a positive light, thereby influencing foreign investors.<sup>26</sup> Shuttle diplomacy focuses upon that employment of a separate third person to relay information and communication back and forth amongst the stakeholders, operating as a more reliable way of communication than face-to-face or mainstream press connection. The tactics of shuttle diplomacy are essentially focused over the use of a third party to relay knowledge back and forth between the parties, acting as a more dependable mode of contact than face-to-face or media-based interaction. The middleman not only acts as a conduit for inquiries and replies, but can also make recommendations for resolving the matter in a private setting.

By maintaining the connection private and indirect, the participants won't feel compelled to employ the debate methods they're used to in public dialogues, and they'll be able to acquire a level of confidence that they wouldn't have been able to attain in these situations. Once confidence as well as a certain level of common respect have been established, a face-to-face meeting and even an interaction routine can be established.

### Diplomats and Economic Sanctions:

Envoys have played a key role in the fear and application of economic sanctions - a demonstration of the "ability to disrupt business intercourse."<sup>27</sup> However, the most important function of envoys or diplomats in using this specifically stated economic weapon has yet to be thoroughly examined. On the one hand, international practitioners' normally deal with larger issues of peace and war, and if they detail specific incidents in which they used economic penalties to win agreements, they do so in a very idiosyncratic manner. Researchers, on the other side, frequently use a number of theoretical viewpoints and empirical facts to generalise across diverse contexts, leaving little useful guidelines on how to cope with specific circumstances. Envoys from the United States and the European Union (EU) are having trouble keeping up with a growing dependency on an ever extra intricate financial sanctions in the quest of national security and foreign policy objectives, with only an illusionistic muscle of technical experience about the use of economic unit. There is currently no formal European or American doctrine that give guidelines on using economic force. This lack of comprehensive thought differs dramatically with martial doctrines, which lay forth rules controlling the use of military force by defining the inciting conditions, relevant processes, and accountable actors entrusted with carrying it out. Considering that economic power and military power are on different sides yet belong to the very same coin, this cognitive asymmetry is difficult to justify.<sup>28</sup>

At a moment when the preferential and thorough impact of trade and financial

restrictions has surfaced as one stop alternative for the people who make decisions on the both sides of the deal to confront an ever-increasing amount of presumed national security and foreign policy risks arising from both non-state and state stakeholders alike, what has initially managed to figure simply as a regrettable inadequacy may eventually turn into a major problem.

### RECOMMENDATIONS:

Diplomats must be able to recognise the conflict between an individual's condition and state obligations, and deal with it without jeopardising the country's interests.

It is crucial to establish types of mediation and reconciliation of preferences that allow governments to function as independent nations while also making use of the impact and prospects of many other actors.

Interacting with general public is expected to cause the most serious issues, necessitating the creation of new and much more open forms of political action that react to the emotionalized populace's need to participate in government.

The use of digitization must always be conducted in such a manner that efficiency improvements do not come at the price of efficacy.

### CONCLUSION:

It is for a fact that not only developing but developed countries too cannot sustain themselves on their own resources and reserves, in a globalised world countries are increasing depending on one another and due to such fact and deterrence tries to impose sanctions to restrain the dependent nature. There are numerous benefits to Foreign Direct Investment and though treaties are signed, bilateral communication happens and diplomatic relations are created yet at some point to safeguard themselves nations engage in financial and commercial sanctions that lead to imbalance in trade. One cannot entirely determine that the sanctioning nation is at fault because at last that nation too has to safeguard their borders and save their people apart from national trade importance. A nation's priority list has many factors from cybersecurity threats to data privacy, infrastructural growth, citizen priority, needs of the country etc. The government needs to balance the everchanging priority dynamics and trade relations so as to benefit from the foreign investment. Due to this conundrum the diplomats and the art of diplomacy comes in picture for a great time now different types of diplomatic techniques were developed and used. Diplomacy not only affects the trade but the public policy objectives too. As a result, in diplomacy, we are interacting with and responding to a growing number of actors from a range of public spheres. These various public realms coexist, often without contacting; they can also collaborate, collide, and divide into new public particles. This pluralization trend is likely to accelerate. It has an impact on a community from not only within, but also across societal boundaries. As a result, foreign policy changes become acceptable issues among the new general public. This is true when international issues are also domestic ones, but it can also arise when a population is interested in events taking place outside their nation's territory. As a result, the new public's demand to have a say in how foreign policy is implemented via diplomacy, based on their personal interests. As a result, diplomacy no longer solely serves a country's national interests on an international level.

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